

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01 CEA-01

COME-00 AGR-05 /083 W

----- 015004

R 261028Z FEB 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6737

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

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AMEMBASSY ROME

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E.O. 11652: N/A

TAGS: EGEN, GW

SUBJ: FINMIN STATE SECRETARY POEHL OPTIMISTIC ON

FRG ECONOMIC OUTLOOK

1. SUMMARY: DURING MY CONVERSATION WITH STATE  
SECRETARY POEHL ON FEBRUARY 25, HE WAS UNCHARACTER-  
ISTICALLY OPTIMISTIC ON THE FISCAL AND ECONOMIC  
SITUATION IN THE FRG. HE SAW NO PROBLEMS IN FINANCING  
THE BUDGET, THOUGHT GERMAN EXPORTS WOULD RISE AT  
A RATE ABOVE THE WORLD LEVEL IN 1976, AND THOUGHT THAT  
UNEMPLOYMENT WOULD BE KEPT WITHIN MANAGEABLE DIMENSIONS.  
END SUMMARY.

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2. DURING OUR MEETING AT THE FINANCE MINISTRY ON FEB. 25, STATE SECRETARY POEHL, WHO IS VERY OFTEN A CREPEHANGER, WAS UNCHARACTERISTICALLY OPTIMISTIC ON THE OUTLOOK FOR THE GERMAN ECONOMY.

3. POEHL REFERRED TO MEETINGS DURING THE PAST WEEK, BOTH OF THE CENTRAL BANK COUNCIL AND OF THE CONCERTED ACTION GROUP, WHERE THE ASSESSMENT IN BOTH CASES WAS OPTIMISTIC. IN FACT, POEHL THOUGHT THE BUNDES BANK WAS BEING EVEN MORE OPTIMISTIC THAN WAS JUSTIFIED. IT WAS TRUE, HE SAID, THAT STATISTICS (FOR EXAMPLE, FOR ORDERS) IN DECEMBER WERE IN SOME CASES NOT ENCOURAGING. HOWEVER, THE BUNDES BANK CONSIDERED DECEMBER UNREPRESENTATIVE FOR VARIOUS REASONS AND THAT THE STATISTICS FOR JANUARY WOULD BE BETTER.

4. THE OUTLOOK FOR PROFITS IN INDUSTRY WAS EXCEEDINGLY GOOD. IN FACT, THEY MIGHT BE RUNNING AT 20 - 30 PERCENT ABOVE A YEAR AGO. THIS WAS A FACT WHICH THE GOVERNMENT HAD NO GREAT INTEREST IN PUBLICIZING, SINCE IT WOULD ONLY ENCOURAGE THE METAL WORKERS TO ASK FOR A HIGHER THAN THE EXPECTED 5 - 7 PERCENT WAGE INCREASE. POEHL WAS INDEED WORRIED THAT THE METAL WORKERS WAGE INCREASE WOULD BE TOO LOW, SINCE IN THAT EVENT THE TRADE UNIONS MIGHT BE MOST DISGRUNTLED WHEN THEY DISCOVERED THE COMPARATIVE PROFITABILITY OF GERMAN INDUSTRY.

5. INFLATION ON AN ANNUAL CALCULATED BASIS WAS RUNNING AT NO MORE THAN 3 PERCENT. THIS IN SPITE OF A TEN PERCENT RISE IN FOOD PRICES AND A STEEPER RISE IN "ADMINISTERED" (I.E., PUBLIC UTILITIES, ETC) PRICES. THE LEAST PROMISING AREA WAS UNEMPLOYMENT WHERE HE DID NOT THINK THE SITUATION WAS REALLY SO BAD. CONTRARY TO MANY ANALYSES, POEHL DOES NOT CONSIDER THE PRESENT GERMAN UNEMPLOYMENT PROBLEM TO BE PRIMARILY STRUCTURAL. HE ADMITTED THAT SOME OF IT COULD BE ATTRIBUTED TO DEMOGRAPHIC AND ISOLATED INDUSTRIAL

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PROBLEMS. HE THOUGHT, HOWEVER, THAT ABOUT 500,000  
OF THE UNEMPLOYED WERE ATTRIBUTABLE TO THE RECESSION.  
THE PROBLEMS OF THE REMAINDER, STRUCTURAL OR NOT, WERE  
EASY ENOUGH TO HANDLE IN A SOCIAL WELFARE ECONOMY SUCH  
AS THE FRG, ESPECIALLY CONSIDERING THAT THERE  
REMAINED ABOUT 2 MILLION FOREIGN WORKERS IN THE  
COUNTRY.

6. IN REPLY TO MY QUERIES WHETHER HIS OPTIMISM APPLIED  
TO THE EXPORT OUTLOOK, POEHL THOUGHT THAT GERMAN  
EXPORTS THIS YEAR WOULD RISE OVER 1975 AT A RATE  
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ABOVE THE EXPECTED FIGURE FOR THE WORLD AS A WHOLE,  
LET US SAY, A RISE IN THE CASE OF THE FRG OF ABOUT

8 PERCENT. HE ALSO EXPECTED THAT THE GERMAN IMPORTS WOULD RISE BY THE SAME PERCENTAGE, LEAVING A NET TRADE BALANCE MORE OR LESS THE SAME AS IN 1975.

7. POEHL ADMITTED THAT THERE WERE PROBLEMS FOR GERMAN PRODUCTS IN ITALY, UK, AND EVEN IN FRANCE. HE ALSO DOUBTED THAT THE RISE IN EXPORTS TO THE OIL PRODUCERS WOULD BE SO STRIKING AS LAST YEAR. HOWEVER, HE FORESAW FAVORABLE PROSPECTS IN THE RECOVERING U.S. AND IN THE BENELUX COUNTRIES. HE SAID THAT THE FRG HAD TAKEN A BENEVOLENT VIEW TOWARDS THE RISING LEVEL OF SALES TO THE COMECON COUNTRIES OWING TO THE RECESSION. IT HAD BEEN RECOGNIZED, HOWEVER, THAT THIS WAS BASED ON AN "ABSURD" INCREASE IN THE LEVEL OF COMECON CREDITS. THE FRG DID NOT THINK THIS SHOULD CONTINUE AND INDEED SHOULD NOT CONTINUE.

8. COMMENT: IN ESSENCE, POEHL WAS TELLING ME THAT HE AGREED WITH THE ASSESSMENT AND FORECAST OF GOVERNMENT AND PRIVATE ECONOMIC EXPERTS WITH WHOM HE IS USUALLY NOT SO IMMODEST AS TO BELIEVE HE HAS TO AGREE. HIS RELATIVE OPTIMISM MAY WELLREPRESENT HIS REALISTIC ASSESSMENT OF THE OUTLOOK (WHICH CONTRASTS WITH HIS MORE PESSIMISTIC VIEWS ON THINGS OUTSIDE OF GERMANY). IT ALSOREFLECTS A POSTURE WHICH SCHMIDT AND THE FRG WOULD LIKE TO ADOPT IN THE FACE OF A COMING ELECTORAL CAMPAIGN.  
HILLENBRAND

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